

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

Senate Bill 724 (Senators Glassman and Peters)
Budget and Taxation

Property Taxes - Assessments and Appeals - Expansion of Property Owner's Bill of Rights

This bill makes several changes to the property tax appeals process. In addition, the State Department of Assessments and Taxation (SDAT) must submit a report to the General Assembly by December 31, 2010, on the feasibility of providing electronic access to assessment worksheets on the department's web site.

Fiscal Summary

State Effect: State general fund expenditures increase by \$3.2 million in FY 2011. Future years reflect annualization and inflation.

(\$ in millions)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	3.2	6.2	6.5	6.8	7.1
Net Effect	(\$3.2)	(\$6.2)	(\$6.5)	(\$6.8)	(\$7.1)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The bill makes the following changes to the property tax assessment appeals process:

- extends the length of time that a homeowner may appeal a property tax assessment from 45 days to 180 day of the assessment notice;
- specifies that a homeowner has the right to record an appeal hearing at both the supervisor level (SDAT) and the Property Tax Assessment Appeals Board (PTAAB) level, at the homeowner's expense;
- specifies that during an appeal hearing at both the supervisor level and the PTAAB level, homeowners have the right to be heard, present evidence, and cross-examine witnesses for a minimum of 90 minutes, but not exceeding two hours;
- authorizes the Director of Assessments and Taxation to direct the department to hold semiannual public education sessions explaining the assessment and appeal process;
- requires SDAT to include a copy of the valuation records in a notice sent to homeowners when a valuation change has occurred;
- specifies that for a hearing at the supervisor level, a person making the appeal may submit a written request at least 15 days before the hearing, for a list of other properties that will be used as comparables by the supervisor at the hearing;
- requires the supervisor to supply the list (1) at least 30 days before the date that the hearing has been scheduled for a written request made at least 35 days before the hearing; or (2) within 5 days from the request for a request made between 35 days and 15 days before the hearing. The list must identify the location and owner of each property;
- specifies that if the supervisor uses the information in the appeal, the list must also include the sale price and date of sale, the assessment and the year or years to which the assessment applied, and the construction costs and the date of construction for each property on the list;
- authorizes SDAT to charge a reasonable fee for copies of the information provided on comparables;
- allows a taxpayer to appeal to a PTAAB in another county, if evidence is presented that a fair hearing cannot be obtained at the PTAAB in the county where the property is located;
- authorizes a person making an appeal to a PTAAB to submit a written request to SDAT demanding a physical inspection of the property under appeal if one has not been done as required by statute;
- requires SDAT to make the physical inspection at least 30 days before the PTAAB hearing; and
- requires PTAAB to consider any difference in the value of the property as the result of a physical inspection made.

Current Law: The following is a discussion on how property tax assessments are conducted and the assessment appeals process in Maryland.

Triennial Assessment Process in Maryland

Under current law, real property is valued and assessed once every three years. This approach, the triennial assessment process, was part of major property tax reform established in 1979. Under this process, assessors from SDAT physically inspect each property every three years. No adjustments are made in the interim, except in the case of (1) a zoning change; (2) a substantial change in property use; (3) extensive improvements to the property; or (4) a prior erroneous assessment. The assessor determines the current “full market value” of the property and any increase in value is phased in over a three-year period. Any decrease, however, is recognized immediately for assessment purposes.

Because only one-third of the properties in each county are reassessed in a given year, local governments can rely on prior years’ growth in the other two-thirds of the base to reduce the full impact of any one-year decline in assessable base. Conversely, when market values are rising, assessed values lag behind the current market, resulting in a slower annual growth in the assessable base than the market may indicate. As a result, the triennial process and its three-year phase-in schedule provide some cushion for taxpayers during periods of dramatically increasing property values and for local governments during a downturn in the housing market.

Assessment Appeals Process

There are three levels in the appeals process that property owners may pursue when appealing a property tax assessment. The first appeal of an assessment goes to SDAT, which determines the original assessment. To the extent a property owner receives an unsatisfactory ruling he or she may appeal to PTAABs, which hear appeals in matters relating to the assessment of property throughout the State. There is one board located in each county and Baltimore City. Each board has four members (three members and one alternate) who are appointed by the Governor for five-year terms. Further appeals may be made to the Maryland Tax Court.

State Expenditures: Both SDAT and PTAAB will incur significant expenditure increases as a result of the changes made to the property tax assessment appeals process.

SDAT Expenditures

There are approximately 2.2 million taxable property accounts in the State and approximately 1.6 million are owner-occupied residential properties. Under the current

three-year assessment cycle, SDAT assesses approximately 700,000 properties each year. Staffing at the department's local assessment offices includes 215 field assessors, 46 supervisory positions, and 155 clerical staff. As noted, SDAT handles the first level of property tax assessment appeals. SDAT typically allocates 20 minutes per hearing for residential assessments and 30 minutes per hearing on commercial assessments.

Exhibit 1 shows the number of assessment notices that were sent out from 2000 to 2009 for assessments conducted the prior year, and the number of first level appeals filed.

Exhibit 1
Property Tax Assessment Appeals – SDAT
(\$ in Thousands)

<u>Group</u>	<u>Notices Sent</u>	<u>Number Appealed</u>	<u>Percent Appealed</u>
2000 – Group 3	632.4	23.4	3.7%
2001 – Group 1	686.1	24.7	3.6%
2002 – Group 2	690.9	30.4	4.4%
2003 – Group 3	646.3	26.5	4.1%
2004 – Group 1	647.5	25.9	4.0%
2005 – Group 2	702.3	30.9	4.4%
2006 – Group 3	710.6	33.4	4.7%
2007 – Group 1	677.1	32.5	4.8%
2008 – Group 2	735.8	49.3	6.7%
2009 – Group 3	731.6	39.2	5.4%

Source: State Department of Assessments and Taxation

The bill will significantly reduce the number of appeals that may be heard each day because SDAT will be required to block off between 90 minutes and two hours for each hearing. In order to hear all cases in a timely manner, SDAT will have to significantly increase the number of hours that assessors and supervisors spend dealing with appeals. As a result, general fund expenditures for SDAT will increase by \$2.2 million in fiscal 2011, which accounts for a 60-day start-up delay. This estimate reflects the cost of hiring 60 assessors and 15 clerical support positions to handle appeals and/or conduct assessments while other assessors are occupied with appeals. In addition, the estimate includes expenditures related to holding public meetings on the appeals process, as well as printing and postage associated with new notice requirements. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. It does not however, include any estimate for new office space which may be necessary to accommodate the new employees.

Salaries and Fringe Benefits	\$1,907,449
Public Meetings	48,000
Printing, Processing, and Mailing New Forms	103,314
Operating Expenses	<u>98,750</u>
Total SDAT Expenditures	\$2,157,513

Future year expenditures reflect full salaries with 4.4% annual increases and 3% employee turnover; and 1% annual increases in ongoing operating expenses.

PTAAB Expenditures

PTAABs heard 61% of their cases in calendar 2008, as shown in **Exhibit 2** due to a marked increase in the number of appeals filed in calendar 2008 as compared to 2007. According to the boards, the backlog of cases was due to increased appeals and board member vacancies.

Exhibit 2
Timeliness and Efficiency Measures
Calendar 2007-2011

	<u>Actual</u> <u>2007</u>	<u>Actual</u> <u>2008</u>	<u>Estimated</u> <u>2009</u>	<u>Estimated</u> <u>2010</u>	<u>Estimated</u> <u>2011</u>
Appeals Filed	8,963	14,062	19,000	16,000	15,500
Appeals Heard	7,281	8,618	12,000	13,500	13,500
Clearance Rate	81%	61%	63%	84%	87%
Number of Appeals Pending at Year-end	4,000	5,993	7,500	7,000	6,500

Source: Property Tax Assessment Appeals Boards

Current staffing for boards includes 1 administrator, 1 executive assistant, 5 secretaries, 2 clerks, and 96 board members. Board members are paid \$25 per hour and may only work 6 hours per day and a total of 30 hours per week. In addition, PTAAB currently provides clerical personnel and office space in Baltimore City and four counties (Baltimore, Montgomery, Prince George's, and Washington). In the other counties, clerical personnel and office space is provided by SDAT.

PTAAB indicates the number of appeals heard by its boards is proportionate to the number of properties that are assessed in a year. Boards typically allocate 30 minutes per hearing, and PTAAB reports that this time is adequate for a hearing, except in rare

instances. PTAAB also indicates that if appellants request additional time, the request is granted.

It is estimated that the bill will significantly reduce the number of appeals that may be heard each day because the boards will be required to block off between 90 minutes and 2 hours for each hearing. In order to continue to hear all cases in a timely manner PTAAB will have to significantly expand its operations. As a result, PTAAB's general fund expenditures increase by \$1.1 million in fiscal 2011, which accounts for a 60-day start-up delay. This estimate reflects the cost of hiring 1 office manager, 1 office supervisor, 6 office secretaries, and 15 office clerks to provide administrative and clerical support for new offices in Frederick, Harford, and Howard counties. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses as well as an increase in contractual services for board member salaries to accommodate shift in the number of appeals that may be heard each day.

Salaries and Fringe Benefits	\$528,941
Contractual Services	299,778
Operating Expenses	<u>235,246</u>
Total PTAAB Expenditures	\$1,063,965

Future year expenditures reflect full salaries with 4.4% annual increases and 3% employee turnover; and 1% annual increases in ongoing operating expenses.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Baltimore, Charles, Frederick, and Montgomery counties; State Department of Assessments and Taxation; Property Tax Assessment Appeals Board; Department of Legislative Services

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mpc/hlb

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